

State of Michigan

401(k) & 457 Plans Overview, and Basic Investing

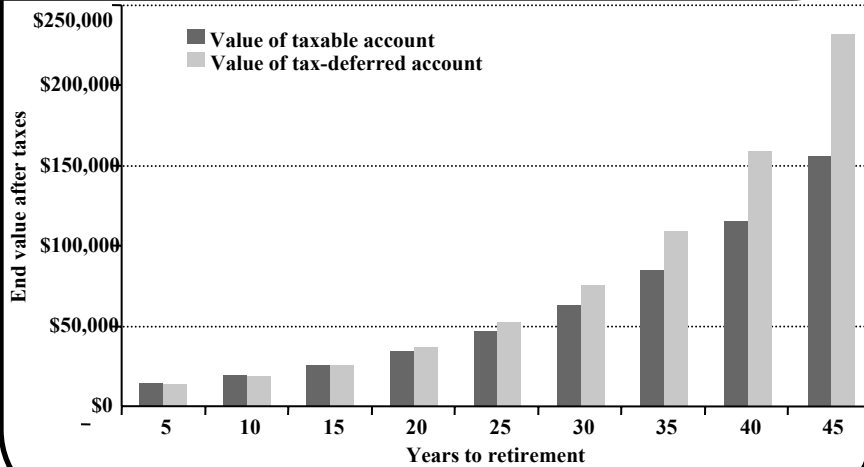
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State of Michigan Retirement Plans

- **401(k) Defined Contribution (DC)**
 - All employees hired *after* March 1997 and participants that converted from DB
 - Retirement Benefit from the State: 4% mandatory (401(k)) and 3% match (401(k)) in contributions
 - Employees first 3% of contributions into 401(k)
- **Defined Benefit (DB)**
 - All employees hired *before* March 1997 who didn't convert to Defined Contribution (DC)
 - Retirement Benefit from the State: monthly payment received after retirement
- **Deferred Compensation**
 - DB participants - all contributions made by employee into 401(k) and 457
 - DC participants - all contributions made by employee above first 3% (401(k)) and all contributions to the 457

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Benefits of Deferring Taxes By Contributing To Your 401(k) & 457 Plans

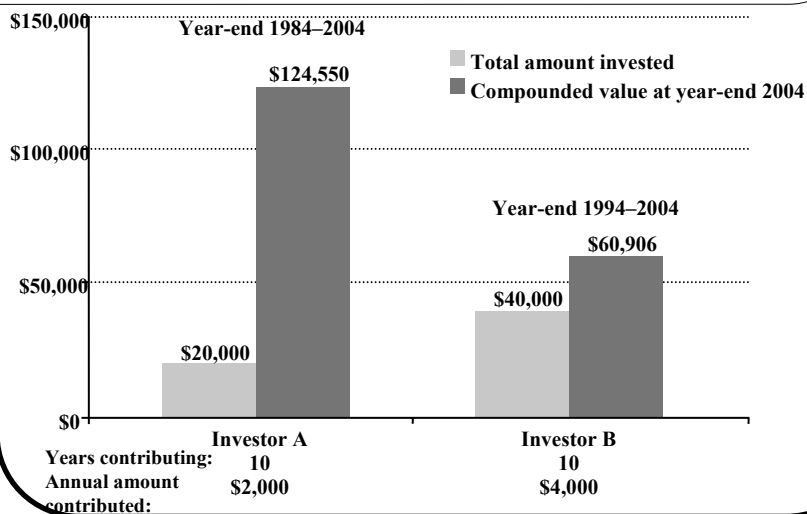


Hypothetical value of \$10,000 invested in large company stocks. This hypothetical example is for an investor in the 25% bracket using the 2004 tax code. Assumes an 8% annual total return. Rates of return are used for illustrative purposes only and should not be construed as a guarantee. Actual account values and earnings may decrease or increase depending on a number of factors. Please read all fund materials prior to investing and consult with your investment advisor. The above illustration does not reflect the different fees and charges associated with investing. If these charges were taken into account, they would reduce the level of performance.

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Power of Compounding

Hypothetical investment in stocks



Rates of return are used for illustrative purposes only and should not be construed as a guarantee. Actual account values and earnings may decrease or increase depending on a number of factors. Please read all fund materials prior to investing and consult with your investment advisor.

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401(k) Overview

- **Contributions** - 100% of compensation up to \$15,000
- **Loans** - Up to \$50,000 or 50% of the vested market value, \$1,000 minimum, \$50 fee
- **Portable** - Roll-ins allowed from 401(k), 403(b) and IRA
Roll-outs allowed to 401(k), 403(b) and IRA
Rollovers are not allowed between the State of Michigan 401(k) and 457
- **Payout** - Can change payout options on an unlimited basis
- **Early Withdrawal Penalty** - Must be age 59½ or incur a 10% early withdrawal penalty
 - If you separate from service during or after the year in which you reach age 55, no early withdrawal penalty is incurred
- **Catch Up** - After 50 years old
- **Taxes** - 20% federal income tax withheld on most distributions

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457 Overview

- **Contributions** - 100% of compensation up to \$15,000
- **Loans** - Not available
- **Portable** - Roll-ins allowed from 457
Roll-outs allowed to 457 and IRA's
Rollovers are not allowed between the State of Michigan 401(k) and 457
- **Payout** - Can change payout options on an unlimited basis - **No paperwork deadlines**
- **Early Withdrawal Penalty** - Does not apply, you can start 457 payments at any age after leaving State service
- **Catch Up** - Yes
- **Taxes** - 20% federal income tax withheld on most distributions

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How to roll your previous 401(k) & 457 Plans into the State of Michigan's Plans

A simple 3-step process

- Visit the Plan web site at: <http://stateofmi.csplans.com> under the forms section, or contact the Plan Information Line at **800-748-6128**, and request your Rollover Contribution and Rollover Acceptance Forms.
- Complete CitiStreet's Rollover Contribution and Rollover Acceptance Forms and send them to your previous plan provider.
- Your previous plan provider will forward a rollover check to CitiStreet for your benefit, or may send you their company-specific forms to complete.

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Additional Information for Defined Contribution Only

• State Contributions

- 4% mandatory (401(k))
- 3% match (401(k))
- Your 3% contribution into the 401(k)) gets you 10%

• Vesting

- 2 years of service = 50% vested
- 3 years of service = 75% vested
- 4 years of service = 100% vested

- State of Michigan Tax Exemption on payout of Defined Contribution dollars only

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Traditional 457 Catch-up

- When?

- The 3 years prior to the year in which you are eligible to retire from the State of Michigan, with **full benefits**
- During catchup, contribution maximum will increase to twice the normal annual limit

Example: Retiring or eligible to retire in June 2007

- \$26,000 in 2004
- \$28,000 in 2005
- \$30,000 in 2006

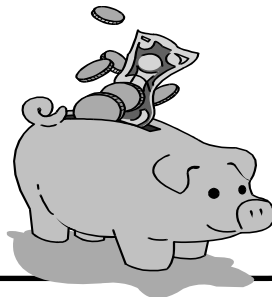
*For **Defined Contribution** and Over 50, Please Call CitiStreet at 1-800-748-6128 for more details.

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Over 50 Catch-up 401(k) & 457

- Available starting in the year you turn 50
- Within 457 plan, cannot be used at same time as traditional 457 catch-up
- Allows additional increase without regard to prior years contribution limits, according to the following schedule

- \$5,000 in 2006



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Contribution Limits 401(k) & 457

- Contributing to 457 **only**, 100% of compensation up to \$15,000
- Contributing to 401(k) **only**, 100% of compensation up to \$15,000
- Contributing to **both** 457 & 401(k), 100% of compensation up to \$30,000 (**Maximum of \$15,000 in each plan**)
- Limits will be reduced to pay FICA taxes and other required withholding (allow for 401(k) loan payments and other deductions).
- Increased Contribution limits as follows:
 - \$15,000 - 2006

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Tax Credit for Contributions

- For first \$2000 in contributions to 401(k) or 457
- Credit is scaled based on *Adjusted Gross Income

Credit	Individual *AGI	Joint *AGI
50%	\$0 - 15,000	\$0 - 30,000
20%	\$15,001 - 16,250	\$30,001 - 32,500
10%	\$16,251 - 25,000	\$32,501 - 50,000

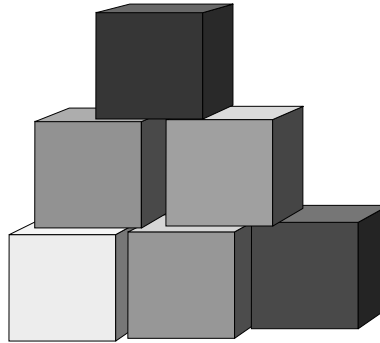
- Credit available from 2002 to 2006

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Step#1 - Know the Basics

The Building Blocks

- Cash Equivalents
- Bonds
- Stocks



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Cash Equivalents



What are they?

Savings vehicle that typically earns a low fixed interest rate:

Money Market Funds
Treasury Bills
Savings Account
Certificates of Deposit

What is the biggest risk?

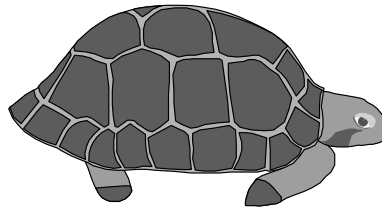
Inflation Risk

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What Are the Current Returns*?

- Average Money Market 1.20%
- Average 1 Year CD 3.37%

*Source Banxquote.com 12/21/05



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Inflation Risk

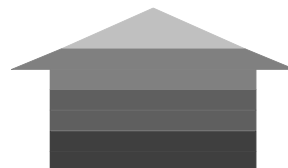
Your Money Loses Its Purchasing Power

1991-2000

(U.S. Treasury Bills)

5.07%

Money Markets



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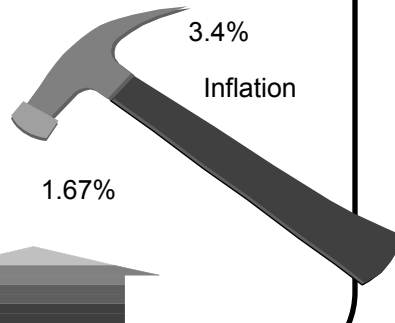
Inflation Risk

Your Money Loses Its Purchasing Power

1991-2000

(U.S. Treasury Bills)

Money Markets



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Bonds

What are they?

Loan agreements between an investor and issuer in which the issuer repays the principal plus interest:

- Government Bonds
- Corporate Bonds
- Municipal Bonds

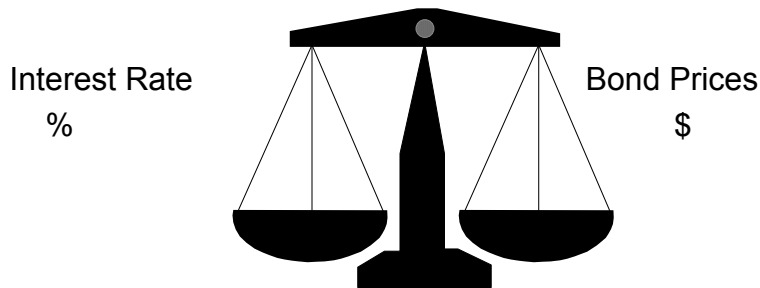
What are the biggest risks?

Interest Rate Risk and Credit Risk

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Interest Rate Risk

Prices on existing bonds move in the opposite direction to interest rates



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Credit Risk

The possibility a loan will not be fully repaid

Investment Grade: Bonds issued by organizations that are believed, by a rating agency, to have the capacity to repay the interest and principal.

Junk Bonds: Bonds that present a greater risk and generally offer a higher interest rate, because the issuer has a greater potential to default on a payment or the principal.

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How “Mature” is Your Bond?

Short term Bonds

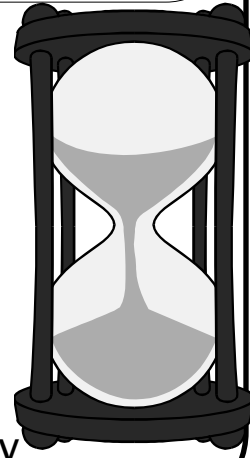
1 - 5 years to maturity

Intermediate Bonds

5 - 10 years to maturity

Long term Bonds

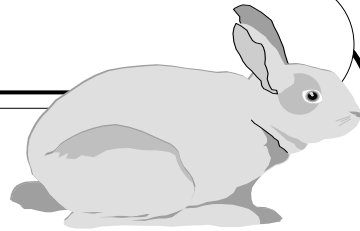
10 years and up to maturity



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Stocks

What are they?



Represent ownership in a company:

- Large Company Stocks
- Mid-sized Company Stocks
- Small Company Stocks
- International Stocks

What's the biggest risk?

Market Risk

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What Makes a Company Large Cap, Mid Cap, or Small Cap?

Large Cap \$5 Billion and Up - *McDonald's*

Mid Cap \$1 - \$5 Billion - *Tyson Foods*

Small Cap \$250 Million - \$1 Billion- *US Office Products*

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Mutual Funds

What are they?

Companies that bring together money from many people and invest it in stocks, bonds, or other assets:

- Stock Funds
- Bond Funds
- Balanced Funds
- Money Market Funds

What are the biggest risks?

Lack of Control, Price Uncertainty

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Tax Implications at Withdrawal

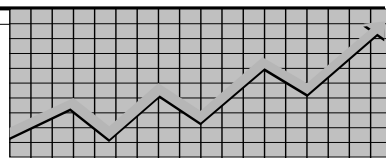
- **Deferred Compensation** (457, 401k & IRA)
 - A. Taxed as ordinary income
 - B. No capital gains taxes owed
- **Outside investments** (brokerage, personal bond & stock holdings)
 - A. Capital gains tax due - difference between sale price and cost basis (purchase price)

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Market Declines

*based upon the Dow Jones
Industrial Average

- **Routine Decline**
 - Drop of 5%
 - Historically happens about 3 times a year
- **Corrections**
 - Drop of 10%
 - Historically happens about once a year
- **Severe Correction**
 - Drop of 15% or more
 - 15 severe corrections in the past 50 years



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Tier I: Passive Investing

Passive/Index Investing

- Indexes measure the ups and downs of stock or bond market
- Seek to match portfolio of a broad-based index
- Performance tracks the market segment represented by the index (ie., S&P 500, LBAG (Lehman Brothers Aggregate Bond Index)

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Tier I: Investment Options

- Stable Value Funds
 - SSgA Stable Value Fund
 - SSgA Yield Enhanced Short-Term Investment Fund (STIF)
- Index Funds
 - SSgA Bond Market Index Fund
 - SSgA S&P 500 Index Fund
 - SSgA S&P MidCap Index Fund
 - SSgA Russell 2000 Index Fund
- Asset Allocation Funds
 - Conservative
 - Moderate
 - Aggressive

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Tier I: Asset Allocation Funds

Conservative

Moderate

Aggressive

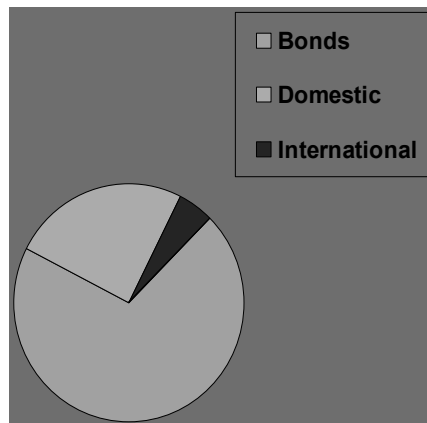


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Tier I: SSgA Conservative Asset Allocation Fund

- Bonds 70%
- Domestic Stocks 25%
- International Stocks 5%

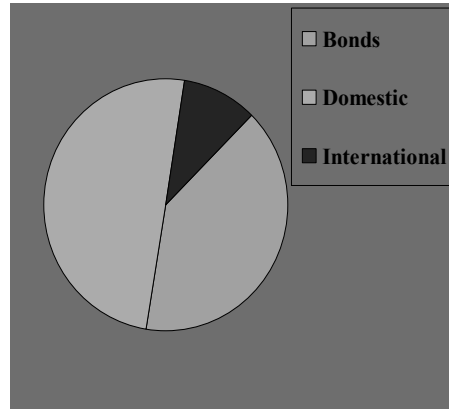
0-5 years



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Tier I: SSgA Moderate Asset Allocation Fund

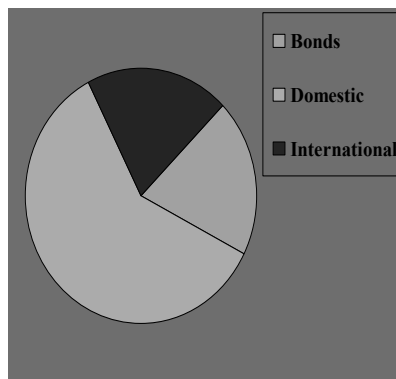
- Bonds 40%
 - Domestic Stocks 50%
 - International Stocks 10%
- 5-10 years



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Tier I: SSgA Aggressive Asset Allocation Fund

- Bonds 20%
 - Domestic Stocks 60%
 - International Stocks 20%
- 10 or more years



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Tier II: Active Investing

Active Investing

- Money managers actively pick and choose individual securities
- Hands-on research and quantitative approaches used to make security selections
- Actively managed funds are subject to higher fees (investment expenses)

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Tier II Active Investing

- Value Stock Investing:
 - Uses research models in an attempt to select stocks that are currently undervalued in regards to their holdings, assets, or earnings potential.
- Growth Stock Investing
 - Is not as focused on the price of the stock today, but rather what the company is doing in terms of new product development, cost cutting measures, new divisions or expansion, industry leadership, etc...

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Tier II: Actively Managed Mutual Funds

- **Bond Fund**
 - Western Asset Core Bond Fund
- **Balanced Fund**
 - MFS Total Return Fund (Class A)
- **Large Company Stock Funds**
 - Dodge & Cox Stock Fund
 - Smith Barney Large Cap Growth Fund (Class Y)

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Tier II: Continued

- **Mid-sized Company Stock Funds**
 - Lord Abbett Mid Cap Value Fund (Class A)
 - Artisan Mid Cap Fund
- **Small Company Stock Funds**
 - STI Classic Small Cap Value Equity Fund
 - Columbia Acorn Fund (Class Z)
- **International Stock Funds**
 - Templeton Foreign Fund (Class A)
 - American Funds EuroPacific Growth Fund
 - SSgA Emerging Markets Fund

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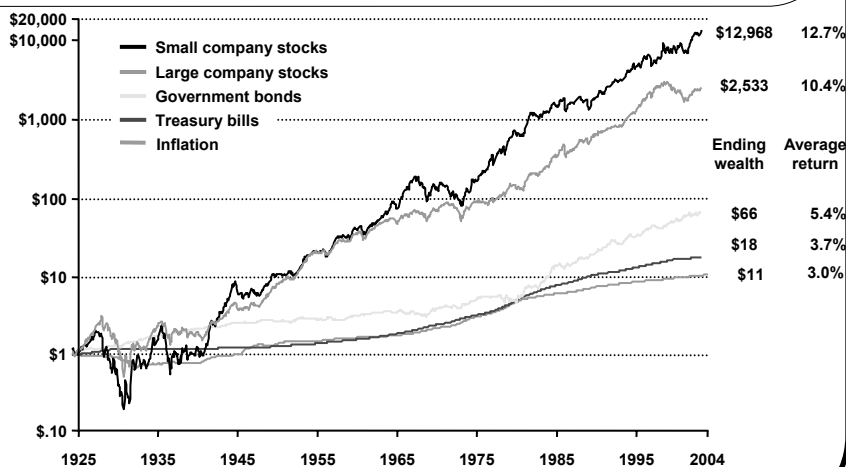
Tier III: The Self Managed Account (SMA)

- Window to thousands of additional mutual funds
- Individual stocks and bonds
- Added investment flexibility
- Socially conscious investing (tobacco free funds offered)
- Additional fees apply
 - Maintenance fee of \$50 annually
 - Transaction fees and loads may apply
 - Over 300 funds with no transaction fee & no load

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Stocks, Bonds, Bills, and Inflation

Year-end 1925–2004



Hypothetical value of \$1 invested at year-end 1925. Assumes reinvestment of income and no transaction costs or taxes.

Rates of return are used for illustrative purposes only and should not be construed as a guarantee. Actual account values and earnings may decrease or increase depending on a number of factors. Please read all fund materials prior to investing and consult with your investment advisor.

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What Does the CitiStreet Advisor Service Provide Me With?

- Objective Investment Advice
- Current assessment of risks, goals and objectives
- Advice on funds outside State of Michigan 401(k)/457 Plans
- Advice on how much to save and how to invest
- Preparation of a personalized investment strategy and reports
- Ongoing support from now until retirement
- Unlimited access to Advice



Through its partnership with CitiStreet, the State of Michigan has agreed to provide access to the CitiStreet Advisor Service, powered by Financial Engines. The State reserves the right to modify or discontinue this arrangement at any time.

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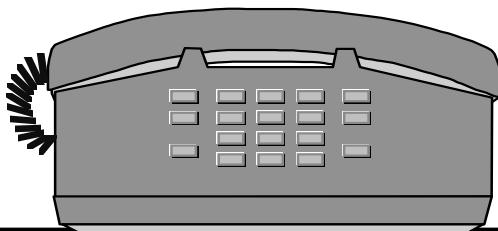
How Do I Access the Advisor Service Online?

1. Log on @ <http://stateofmi.csplans.com> using your Social Security# and PIN
2. Click on **Investment Advice** link
3. Review the Investment Services Agreement, then click **I Accept**

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How Do I Access the Advisor Service On the Phone?

- Call 1-800-748-6128
- Advisors available Monday – Friday, 9:00 a.m. – 5:00 p.m.



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How Much Does it Cost?

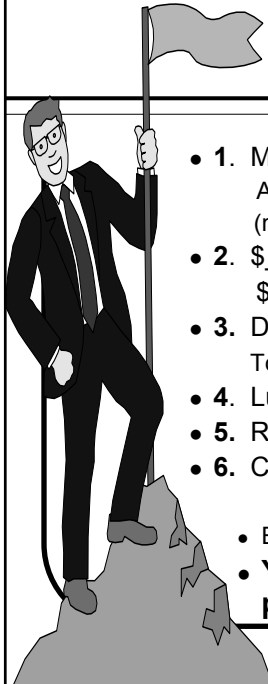


- **Advice Delivered Online:**
 - Active State of Michigan Employee: Free
 - Former State of Michigan Employee: 1.67 bps*
- **Advice Delivered Over the Phone:**
 - Active State of Michigan Employee: 2.5* bps
 - Former State of Michigan Employee: additional 2.5* bps above online charge
- When active state employees terminate their employment, they will continue to receive their online advisor service for 90 days at no cost. After 90 days the former employee fees apply.

* Example of Basis Points, 1.67 bps charge on an account balance of \$10,000 would be \$1.67 per month, which is 0.000167 multiplied by \$10,000

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Payout Options 401(k) & 457

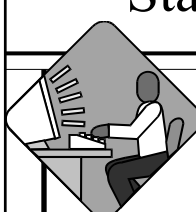


- 1. Monthly over ____ years (minimum \$100 per month)
Annual over ____ years (minimum \$1000 per year)
(maximum of life expectancy)
- 2. \$ ____ per month (minimum \$100) until ____ or exhausted
\$ ____ per year until exhausted (minimum \$1000)
- 3. Direct Rollover to an IRA or another employer plan.
Total Account Balance OR \$ _____
- 4. Lump Sum Payment: Total Account Balance or \$ _____
- 5. Required Minimum Distribution, starting at 70½
- 6. Cancel current election

- Earliest payment is 30 days following your date of departure
- **You do not have to roll your monies out the plans until you need/want to**

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State of Michigan Web Site



To access your website:

- 1) Log on to <http://stateofmi.csplans.com>
- 2) Enter your Social Security Number and PIN , click on Login.
The screen shows your name, Plan's names & current balances.
- 3) Click on your Plan name
- 4) Click on one of the following options:

My Account Balance Information Contributions Manage Investments Loans (401(k)) Withdrawals Transaction History Pending Transactions	Personal Information Summary Beneficiary Information	Plan Information Introduction What's New Plan Highlights Participant Services FAQs Plan Publications
My Statement My Statement Statement Preferences	Investment Information Fund Performance Fund Prices Fund Information	

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Web Site (continued)

OPTIONS

- 401(k) Plan Information
- 457 Plan Information
- Financial Resource Center
- Advisor Service

Forms

[Beneficiary](#)
[Rollover](#)
[Financial Hardship](#)
[Guide To Termination or Retirement Distributions](#)
[Payout Elections](#)
[Change of Address](#)
[SMA](#)

Tools

[Introduction](#)
[Calculator](#)
[I-Chat Transcript](#)

Financial calculators are available to calculate different scenarios to plan your retirement



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State of Michigan Information Line 1-800-748-6128



To Access:

Step 1: Dial toll-free 1-800-748-6128

Step 2: Enter your Social Security Number and PIN

Step 3: Select Plan 401(k) by pressing 1 & # or 457 by pressing 2 & #

Step 4: After Account Balance is given

- First time calls press 2 to access the Main menu, then press 2 for Contributions and Investments, or
- Choose from the following
 - 1) Account Balance
 - 2) Contribution and Investments
 - 3) Transfer Available Fund Balances
 - 4) Request Forms or Documents
 - 5) Other Options: Withdrawal Information; Loans (401k only); Change PIN, internet access or Preferences; Self-Managed Brokerage Account (SMA)
 - 9) Exit
 - 0) Speak with a CSR

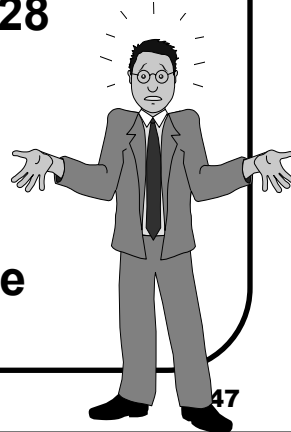
* Inquire about another Plan

** Beyond main menu, switch to another Plan

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How to Contact Us

- **Web site:**
<http://stateofmi.csplans.com>
- **Citistreet: 1-800-748-6128**
- **Citistreet Distribution Specialists**
1-877-624-7602
- **Citistreet Lansing Office**
1-517- 636-6077



Other Seminars Available...

- **CitiStreet Advisory Service**
 - Reviews the CitiStreet Advisor Service, how to access the service. Provides a detailed overview of how to use the service and how to implement advice received
- **Investing for Retirement: Advanced**
 - Reviews asset allocation strategies, market timing and dollar cost averaging. Discusses available funds and where your retirement dollars are going to come from
- **Pre-Retirement**
 - Reviews issues regarding retirement from the State of Michigan

Take Action

- Invest....

- As Much As You Can
- As Soon As You Can
- As Long As You Can



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Important Notes

- Today's workshop was designed to:
 - Provide you with fundamental information on investment opportunities
 - Objectively highlight your fund options
 - Outline other sources of information for your decisions
- This presentation does not constitute legal, investment or financial advice of any kind
 - Please consult your own advisors for such advice
- Any investment performance illustrated in this presentation details historical returns and does not guarantee future investment returns of the investments reviewed

12/21/05

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